

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 5793

**WENATCHEE VALLEY COLLEGE**

Agency No. 686

July 1, 1995 Through June 30, 1996

Issue Date: March 21, 1997

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**WENATCHEE VALLEY COLLEGE**  
**Agency No. 686**  
**July 1, 1995 Through June 30, 1996**

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**Overview**

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We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Wenatchee Valley College included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for the Wenatchee Valley College.

Brian Sonntag, CGFM  
State Auditor

December 24, 1996

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## Schedule Of Findings

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1. Wenatchee Valley College Should Improve Controls Over Bookstore Inventory

Our audit of the Wenatchee Valley College Bookstore revealed that internal controls over merchandise were inadequate.

The college contracts with an independent inventory service to perform the physical count at year end. Neither the contractor nor the college performs a reconciliation of expected versus actual merchandise on hand. As a result, potential losses are not identified or investigated.

The State of Washington Office of Financial Management (OFM) *Policies, Regulations, and Procedures* manual, Section 3.2.1.2.3 states:

The agency head and inventory officer(s) are responsible for safeguarding inventory assets. Appropriate measures are to be instituted to accomplish this task. See further Section 6.2.2.1.9.

Section 6.2.2.1.9(g) requires:

. . . Causes for differences between quantities determined by physical inspection and those shown on accounting records are to be investigated and, to the extent possible, improvements in procedures are to be made to prevent future error or losses . . .

Without an effective internal control system over inventory, the college cannot ensure proper reporting or safeguarding of state resources.

We recommend Wenatchee Valley College improve internal controls over bookstore inventory.

Auditee's Response

*We do not concur with the finding as presented. The College believes controls are in place to ensure safeguarding of state resources.*

*It appears that College staff failed to fully explain the existing procedures when meeting with staff from your office.*

*The bookstore staff performs a physical inventory of text books for each quarter: summer, fall, winter and spring. At the beginning of each quarter the Bookstore manager determines a quarter beginning count by physically counting the quantity on shelf and then adding new books ordered and buy backs.*

*He has the roster of the number of books needed for each class as requested by each professor and considers this the number of books sold. Mid-quarter another physical count is taken and compared to the beginning of the quarter inventory, less the sold books. Since the Bookstore manager has been with Wenatchee Valley College, there have been no significant differences that would raise questions regarding loss or shrinkage.*

*We will formalize this procedure so it is available for review by the auditors.*

*We believe we have adequate controls in place to safeguard resources and that formalizing the existing practice will clarify the controls. Additionally, we plan to have this manual effort replaced by a point-of-sale system. This has been our plan for three years but each year the project to move the bookstore to VanTassel Hall and install point-of-sale equipment has been delayed.*

#### Auditor's Concluding Remarks

We had an opportunity to review the quarterly physical inventories that were mentioned at the exit conference. The counts do identify the number of books that have come off the shelf. However, this data is not reconciled to revenue. Thus, we reaffirm our finding.

We are excited about plans for a point-of-sale system and look forward to its implementation.

#### 2. Wenatchee Valley College Should Improve Internal Controls Over Cash Receipts At The Bookstore

During our audit of the Wenatchee Valley College Bookstore, we noted the following internal control weaknesses over cash receipting:

- a. There is a lack of segregation of duties between the receipting, recording, and reconciliation functions.
- b. Access to the cash registers is not sufficiently restricted. As a result, accountability for cash receipts cannot be assigned to a specific individual.
- c. Cash and check composition per the register tape was not reconciled to the deposit. This reconciliation is essential to safeguarding collections.

The State of Washington Office of Financial Management *Policies, Regulations, and Procedures* manual, Section 6.2.2.1.1 states in part:

(a) . . . there is to be a separation of duties in the actual handling of money, recording the transactions, and reconciling bank accounts . . .

(f) Cash is to be protected by the use of registers, safes, or locks, and kept in areas of limited access . . .

(g) . . . The total dollar amount recorded on cash receipt forms, by mode of payment, is to be balanced daily in total cash, checks, etc. collected . . .

These weaknesses increase the risk that errors or irregularities could occur and not be detected in a timely manner, if at all. The bookstore generates a significant amount of revenue annually from the sale of textbooks and supplies.

We recommend Wenatchee Valley College improve internal controls over bookstore cash receipts as follows:

- a. Segregate the receipting, recording, and reconciliation functions.
- b. Limit access to the cash registers.
- c. Reconcile the composition of the register tapes and the deposit.

Auditee's Response

*It is the position of Wenatchee Valley College that adequate controls are in place to ensure the safeguard of cash receipts. However, the College recognizes that internal controls can almost always be somewhat improved.*

*By removing certain functions from Bookstore staff responsibilities, controls over cash in the Bookstore can be improved. Following discussions with the audit team and Wenatchee Valley College staff, we took the following actions to reorganize areas of responsibility and thus strengthen controls. Explanations are provided following each of the items listed in the finding.*

- a. *The Bookstore has two full-time employees and a number of part-time employees that are called to work only when the traffic requires additional support, e.g., the beginning of each academic quarter. The small number of staff prevent us from achieving the optimum separation of duties within the staffing plan authorized for the Bookstore. However, we have achieved the separation of duties by separating the work functions between the staff in the Bookstore and the Accounting Office. We believe this separation achieves excellent separation and control as the Bookstore manager has no direct responsibility for Accounting Office staff and the Accounting Office manager has no direct responsibility for the Bookstore staff.*

*We have separated receipting, recording and reconciliation functions by assigning certain functions to the Bookstore personnel and other functions to the Accounting Office personnel as follows:*

- 1) Only the receipt of cash is handled by the Bookstore personnel.*
  - 2) Each day the Accounting Office staff goes to the Bookstore*
    - a) prepares the bank deposit and*
    - b) reconciles the "Z" tape to the deposit, including ensuring the appropriate Bookstore cashier has noted and signed the cash register receipt for any mistakes when ringing up cash register transactions.*
- b. *The separation of duties between the Bookstore and Accounting Office, and the daily bank deposit/reconciliation process, increase the controls ensuring the safeguarding of cash.*
- c. *During December 1996, the Accounting Office was assigned responsibility for reviewing the reconciliation of the register tape to the deposit to ensure consistency and completeness in entries. The procedure includes ensuring an employee signature and date are entered on the register tape, with an explanation, whenever there is a correction entry. Additionally, the implementation of the separation of responsibilities as discussed under a. above will provide even stronger separation of controls.*

Auditor's Concluding Remarks

The college appears to have improved internal controls. We will review these controls during our next regularly scheduled audit.

We wish to thank college officials and personnel for their assistance and cooperation during the audit.